

Inpatient and outpatient services: assessing payment adequacy and updating payments

ISSUE: MedPAC is charged with making an assessment of the adequacy of current payments for Medicare's inpatient and outpatient prospective payment systems and recommending payment updates for 2006.

KEY POINTS: Our approach for updating payments consists of two steps:

- assessing whether current payments are adequate, and
- making a judgement about how much hospital payments should change in 2006.

The update recommendation reflects MedPAC's judgement about how much Medicare's hospital payment rates should change in 2006 to ensure beneficiaries' continued access to high quality hospital services.

In assessing payment adequacy, we consider various market indicators, the relationship of Medicare's current payments to providers' costs, and the appropriateness of providers' costs. The market indicators we consider include beneficiaries' access to care, entry and exit of providers, volume of services, quality of care, and access to capital. Cost allocation practices make it difficult to assess the relationship between current Medicare payments and costs for a single service sector in the hospital. Consequently, we assess this relationship for the hospital as a whole, including the inpatient, outpatient, home health, skilled nursing facility, psychiatric, and rehabilitation services hospitals furnish to beneficiaries.

At the December meeting, we will present draft update recommendations for inpatient and outpatient services. We will also present an analysis of 2003 Medicare margins with projection to 2005, along with information on the growth in hospitals' costs and changes in hospital quality measures.

ACTION: Commissioners should review the draft material on payment adequacy for hospitals and discuss the draft update recommendations. We will revise the section based on your discussion and present a final chapter for approval at the January 2005 meeting.

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